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CASE NAME : Discussion of Pipeline Operational Flow Orders

CONTACT : Gary Mahrenholz  
Division of Market Development  
Office of Markets Rates and Tariffs

The Commission expressed concern in Order No. 637 that pipeline operational flow orders (OFOs) may be impeding the development and operation of an efficient gas market. Clearly, OFOs are essential to help pipelines maintain reliable service during emergency periods. The Commission recognizes that OFOs can help to identify pipeline constraint points that need to be eased by infrastructure enhancement. However, OFOs restrict shipper use of the pipeline system, replacing the market with a command and control approach where pipelines direct shipper actions. OFO measures are declared mainly during peak periods and restrict shipper purchase and transportation options at a time when such options are necessary to obtain low competitive prices and satisfy all demand.

Particularly during cold winters, shipper imbalances cause operational problems for many pipelines. Some shippers create gas imbalances by arbitraging differences in gas prices and penalties within and across pipeline systems. To correct imbalance problems, pipelines initiated filings at the Commission to raise OFO and imbalance penalties. At various technical conferences implementing these changes, shippers raised important concerns that pipelines were abusing OFOs in various ways. Many shippers felt that pipelines were using OFOs as a first option rather than a last resort. Some of the alleged abuse that shippers raised included:

1. Shipper complaints that pipeline-declared OFOs that were either too frequent, in effect for too long, or affected too large a portion of the pipeline system.
2. Shipper complaints that various OFO measures were poorly defined giving pipelines the latitude to declare emergency orders of varying degrees for a particular set of operational conditions.

3. Shipper concerns that pipelines were favoring their marketing affiliates when an OFO was in effect.

The Commission addressed many of these problems in Order No. 637. The Commission concluded that many of the OFOs now in place do not help maintain reliability in the most efficient manner. Order No. 637 requires pipelines to minimize the use of OFOs by establishing a more narrowly defined emergency orders that are tailored to particular operational conditions. The order also requires pipelines to post as much operational information as possible when issuing or lifting an OFO, to justify OFO penalty levels where penalty revenues are credited back to customers, and to issue a more detailed report describing why OFOs were issued and lifted.

The Commission continues to takes seriously the service quality issues associated with the pipeline OFO abuse. The goal of open access is to promote competition across the pipeline network by giving shippers the greatest amount of flexibility that is practicable. The Commission wants to ensure that pipelines maintain reliable service with minimal the use of OFOs. Market forces should operate on pipeline systems as long as practicable.

Staff will monitor pipeline OFO activity on a regular basis. The Order No. 637 OFO measures will help provide better information on why OFOs were declared and lifted. This will assist the Commission in determining whether pipelines are using OFOs to inhibit competition and reduce service quality. Better information will also assist the Commission in determining where capacity expansion is needed on the interstate system. Finally, more timely operational information will help shippers stay in balance during critical times to maintain pipeline service reliability.

The new procedures together with more effective monitoring should limit the issuance of OFOs to times when they are absolutely necessary to maintain service reliability. This will permit market forces to better dictate gas commodity and transportation transactions across pipeline networks.